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Project Elektra

July 2018



Executive Summary

- Epic, the maker of Fortnite, plans to launch an Android version of Fortnite directly to the public, bypassing the Play Store
 - ***Bypassing the Play Store will result in less security for Android app users, a more fragmented Android app distribution system with Fortnite as an additional player in the space (suboptimal for users), and lower revenue for Google***
- A large strategic investment into Epic could help advance broader discussions about using the Play Store for Fortnite
 - It's unlikely Epic will require any primary capital, although could value a counterweight to Tencent who is currently a 48% stockholder
 - Other strategic areas of collaboration include Cloud (Epic currently uses AWS), Ads, YT (live and on demand game videos) and Yeti (Fortnite + Epic/Unreal Engine support for Yeti games)
 - Valuation would be high, potentially \$10B+ (we don't have access to Epic financial information so this is an estimate)

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Company snapshot

Company Overview

- Founded: 1991,
- Description: Develops games for PCs, consoles, mobile, VR, and the Web
- Unreal Engine: a free to use gaming engine for developers, provided that they pay a 5% royalty fee on gross revenue
 - Utilizes high-end GPU rendering including architectural and photo-realistic simulations
- Historically, Elektra has been heavily focused on PC rather than mobile, specializing in high-end visual rendering
- Ownership: Tencent acquired a ~48% stake in Elektra in 2013
- Headquarters: Cary, NC
- Employees: 600 employees

Key Games / Products



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Timeline & Recent Developments

- 2018: Full release of Fortnite, early access opened mid-2017
- 2017: Announced release of Robo Recall, a VR title made for Oculus Rift
- 2015: Announced release of MOBA title, Paragon for PC and console
- 2014: Sold successful Gears of War IP to Microsoft,
- 2013: Tencent acquired ~48% stake to help the company transition into a games-as-a-services model
- 2006: Released Xbox 360 title, Gears of War, which became an instant commercial success, grossing a reported ~\$100mm
- 1998: Release Unreal, which expanded into the series of Unreal games that has become a well-respected video game franchise
- 1991: Founded as Potomac Computer Systems and later Elektra MegaGames, Inc.

Key Leadership



Tim Sweeney
Co-Founder & CEO



Mark Rein
Co-Founder & VP
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Elektra has two key assets in addition to smaller titles



- Launched early access in **September 2017**
- **Free to play** with in game purchases
- **125M** players
- Available on **console, PC, iOS**
- **>5B** YT views in April
- **\$318M** in revenue across all platforms in May, **up 7%** from April
- Majority of **growth from console**, with mobile and PC flat compared to April
- **\$1.2B** in revenue since launch
- On pace to reach **~\$2.5B** in revenue this year⁽¹⁾



- Suite of integrated tools for game developers to design and build games, simulations, and visualizations
- Unreal Marketplace: enables game developers to purchase digital content sold by 3D modelers, digital artists, sound designers, programmers and animators
- **6.3M** Unreal Engine 4 users as of July 2018, an increase of more than 1M users since March
- **30% growth** in active sellers in 1H18
- Over **1,500 creators** offering more than **5,000 curated products** on the Marketplace
- **8M** downloads from the Marketplace since the store's launch in 2014
- Est. **\$200M** in revenue⁽²⁾

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(1) Assumes sustained growth at May growth rate of 7%

(2) Estimate \$4B gross revenue through Unreal, 5% share for Elektra

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Valuation very likely to approach **\$10B** given success of Fortnite and current multiples of game developers

	Assumptions	Implied valuation	Considerations
Sum of the parts	<ul style="list-style-type: none"> Fortnite - Estimate \$2.5B in revenue this year; public comparables⁽¹⁾: 5-8x fwd revenue, 25% liquidity discount Unreal Engine - Estimate \$200M in revenue; comparable transactions⁽²⁾: ~5x revenue 	\$10B - \$16B	<ul style="list-style-type: none"> Fortnite revenue estimates are speculative, and future growth could slow substantially Must believe in Fortnite as a genre and Elektra's ability to define future genres Publicly traded game developers are trading near all time highs
PUBG Comparison	<ul style="list-style-type: none"> Bluehole rumored to raise \$560M from Tencent at a \$5.6B post-money valuation iOS downloads (Fortnite/PUBG): 79M / 47M = 1.7x Avg DAU in April: 7M / 5.5M = 1.3x Mobile data usage / hour: 66.5MB / 41.25MB = 1.6x 	\$7.2B - \$9.5B	<ul style="list-style-type: none"> Assumes sustained popularity disparity between Fortnite and PUBG
Venture returns	<ul style="list-style-type: none"> Tencent invested \$330M for 48.4% in 2013 Assumes target venture rate of return of 30-40% 	\$3B - \$6.5B	<ul style="list-style-type: none"> Tencent unlikely to focus solely on financial return; focused on dominating game development across genres through first party or investment portfolio May not be willing to sell shares

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(1) Public comps: EA, Take Two, Ubisoft, Tencent, Activision Blizzard
 (2) Based on Unity private financing transaction in 2017

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Preliminary investment considerations

- Will require a substantial investment to gain influence
 - ~20% stake = ~\$2B
 - Anything short of a control stake will limit Google's ability to influence the company's trajectory
- Given success of Fortnite, Elektra does not need primary capital
 - Could be a combination of primary and secondary
- The company may be open to a second large strategic investor as a counterweight to Tencent
- Tencent may not be willing to sell shares, or may seek to block another strategic investor (investor rights unknown)

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